

## **ANNUAL INTERNAL AUDITOR'S OPINION REPORT 2012/13**

### **1.0 INTRODUCTION:**

- 1.1 The purpose of this report is to review the control environment and to review the effectiveness of Internal Audit.
- 1.2 The report is produced in compliance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government in the United Kingdom which requires the Chief Internal Auditor to report annually on the adequacy and effectiveness of the internal control environment.
- 1.3 The Accounts and Audit (England) Regulations 2011, requires that a “relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems”. Regulation 6 specifically requires organisation to annually review the effectiveness of Internal Audit.
- 1.4 The key areas of this report are;
- the Internal Audit Manager's Annual Audit Opinion\*
  - any other matters that should be considered for inclusion within the Annual Governance Statement.
  - the performance of Internal Audit section
- \*The opinion is based on the control environment as set out in the Assurance Framework.

### **2. STATEMENT ON THE INTERNAL CONTROL ENVIRONMENT – AUDIT OPINION**

- 2.1 Management are responsible for maintaining adequate and effective control systems. Internal Audit reviews these risk based systems over a four year period. The Auditors' opinion cannot, therefore provide absolute assurance that the internal control environment is operating adequately and effectively.
- 2.2 Based on the work undertaken by Internal Audit during 2012/13, it is the opinion of the Internal Audit Manager that:
- Arrangements are in place to ensure there is an adequate and effective control environment
  - Overall systems and internal control arrangements continue to be effective and agreed policies and regulations have been complied with in the majority cases. There have been weaknesses identified during the year; however recommendations have been made to address these with management agreeing to implement the actions. Progress is monitored and Internal Audit is content that management are in the main, implementing the required actions promptly to strengthen controls. These actions have been taken into account whilst forming the overall opinion. The audit outcomes this year have however resulted in more limited assurances being awarded than in previous years and some recommendations have been repeated from last year. Where this has occurred the rating has been escalated to high, where relevant and if not actioned within agreed deadlines will now be reported to EMT and Audit Committee.
  - Managers are therefore aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve controls

- Adequate arrangements are in place to deter and detect fraud. Although training will need to be undertaken to inform Officers and Members of the updated fraud related policies.
- 2.3 As demonstrated by the audit results in Appendix 1 and 2, 12 audit reviews resulted in reports where the auditor was able to provide an opinion of “Reasonable” or “Substantial” assurance. 9 audits resulted in limited assurance. There were no audits where the auditor was unable to provide assurance on the controls reviewed during the audit. There were four audits which were partially completed at year end, the final reports are being discussed with service managers. There are no audits which are expected to result in no assurance. Three are likely to have Reasonable or Substantial assurances, one may be at limited. The final results will be confirmed at Committee.
  - 2.4 Audit outcomes have confirmed that there remains the requirement to update Financial Regulations and to carry out a review the existing policies and procedures in place surrounding Officer Declaration of Interest. It is recommended that both items are considered for inclusion within the Annual Governance Statement.
  - 2.5 Internal Audit noted reports from other assurance agencies (such as the HSE and Zurich) and from the External Auditor.
  - 2.6 Comments against the Assurance Framework are detailed within Appendix 3.

### **3. SUMMARY OF AUDIT WORK AND PERFORMANCE**

#### **Resources**

- 3.1 During May 2012 Internal Audit entered into a Service Level Agreement with East Dorset District Council to provide a Chief Internal Auditor role across four Dorset District Councils. The team was restructured and a new Audit Assistant post recruited and filled in August 2012. A member of the team also returned following a period of maternity leave during the year. The Internal Audit Manager was content that there were adequate resources and skills within the audit team to deliver an effective service for New Forest District Council and the existing three Councils to which an Internal audit service is provided (New Forest National Park Authority, Ringwood Town Council and Lymington and Pennington Town Council), whilst maintaining a budget saving.

#### **Audits Outcomes**

- 3.2 The work of the Internal Audit section is managed through a risk based assessment of a four year Strategic Plan drawing down an annual Operational (Tactical) Plan for the financial year under review.
- 3.3 Appendix 1 details the opinion provided on each audit with a summary of the number of recommendations made. These results have been shared with the Section 151 Officer, Executive Management Team and Audit Committee throughout the year. It is confirmed that all of the fundamental system audits were completed within the financial year.
- 3.4 Recommendations made as a result of the audit review, (graded as high, medium or low priorities in relation to controls or as an opportunity to improve the efficiency or effectiveness of the process) and recorded in action plans which are discussed and agreed with service managers. Internal Audit monitors implementation of recommendations against agreed target dates. Any overdue high priority recommendations are reported to Executive Management Team and Audit Committee. There was one reported during the year which is being progressed.

### **Additional Audit Work**

- 3.5 Auditors have also worked with Senior Management;
- to help develop more efficient systems and savings (i.e. banking)
  - on corporate projects to help meet Council objectives. (i.e. Housing)
  - in developing improved policies and ways of working (i.e. Contract Projects delivering new Contract and Procurement Strategies, Policies and Procedures)
  - providing extensive advice and consultancy support in relation to compliance with key Council policies
  - as well as additional work to support the Section 151 Officer as required
- 3.6 Internal Audit also undertakes further activities such as assessing the risk of fraud in its planning and reviewing and recommending improvement to related fraud policies and undertaking fraud investigations.
- 3.7 The fraud policies were all reviewed, updated where required (Fraud Response Plan) and approved during the year. An online training package has been developed to improve Officer and Member awareness and understanding of these policies. This package will be rolled out during 2013/14.
- 3.8 There were 6 fraud cases (6 in 2011/12) referred to Internal Audit. (Further Fraud cases in respect of Benefit and Council Tax are referred to and investigated by a dedicated Investigations team. This team prosecuted 12 cases during the year). The investigations were largely prompted by management, who together with staff, generally have a very positive attitude towards whistleblowing and anti-fraud. There were no significant systems weaknesses or fundamental break down in controls associated with these reviews.

### **Working with Partners and Other Inspection Agencies**

- 3.9 To avoid the duplication of work and to improve the effectiveness and efficiency of audit, Internal Audit discusses planned work with the external auditor. The team carried out three quarters of the Benefit Subsidy grant work during 2012/13, resulting in improved skills within the team but also a significant saving in external audit fees. (circa £30,000). This arrangement will continue into 2013/14 with all workbooks being undertaken by Internal Audit.
- 3.10 The internal audit team continues to act as the internal auditor for the New Forest National Park Authority. This work is undertaken under a Service Level Agreement (SLA) for an agreed sum. An additional assignment was undertaken during the year which was separately charged.
- 3.11 Internal Audit also acted as the Internal Auditor for two Town Councils during 2012/13. This work is completed for a small fee and will continue into 2013/14.
- 3.12 As referred to in paragraph 3.1 the Internal Audit Manager has successfully provided a Management role to four district councils for an agreed fee.

### **Summary of All Work Delivered**

- 3.13 The estimated number of NFDC days with Contingency time totalled 852 days. Actual productive days were 824, 28 days less than expected. The actual number of contingency days were double the estimate however. A summary of time spent against the approved plan is recorded in Appendix 4. The total number of working days available was 41 greater than expected. This was due to an Officer returning from Maternity leave earlier than expected and reduced levels of sickness than originally allowed for.
- 3.14 There were four audits which were not completed during the totalling 34 days (as detailed in Appendix 1). Engineering works and Community Safety will be completed during 2013/14. HR and partnerships will be considered within the scope of each auditable area during 2013/14.
- 3.15 During the year, decisions are made on where to best allocate resource time. The audits above were not completed, although there was more time available than expected. Time was taken on contingencies and additional testing on the main financial audits where weaknesses were identified. Main Financial audits are deemed to be higher risk.

### **Maintaining Performance and Standards**

- 3.16 Auditor's performance is maintained through for example; independent management review of each audit, through annual appraisals (in line with Council policy), through ongoing training and through review of sickness records and attendance at joint Internal Audit Groups.
- 3.17 In undertaking all audit reviews our officers have acted independently, objectively and ethically at all times.
- 3.18 Through internal self assessment, it is considered by the Internal Audit Manager that all 11 standards as laid down in the CIPFA Code of Practice for Internal Audit in Local Government have been met. In addition it is the assessment of the Internal Audit Manager that the 5 standards, within the CIPFA publication 'The Role of the Head of Internal Audit in Public Service Organisations' have also been met.
- 3.19 The service has been delivered within budget, with additional fee income of approximately £40,000 and savings to external audit fees of approximately £30,000.

## **4 EFFECTIVENESS OF INTERNAL AUDIT**

- 4.1 The Accounts and Audit (England) Regulations 2011 require organisations to annually review the effectiveness of Internal Audit. In order to determine the effectiveness of Internal Audit, Members need to consider the contents of this Auditor's Annual Report.

## **5. ACKNOWLEDGEMENT**

- 5.1 The Auditors would like to thank all the staff involved for the help and co-operation that they have given during the course of the audit reviews.

## **6.0 FINANCIAL IMPLICATIONS:**

- 6.1 There are no financial consequences arising directly from this report, although a robust internal audit function helps to protect the Council from financial loss.

**7.0 EQUALITY & DIVERSITY AND ENVIRONMENTAL MATTERS:**

7.1 No equality and diversity or environmental matters are associated with this report.

**8.0 CRIME & DISORDER IMPLICATIONS:**

8.1 The service has responsibility for the prevention and detection of fraud but there are no direct crime and disorder implications arising from this report.

**9.0 RECOMMENDATIONS:**

9.1 To consider the annual report and opinion and the level of assurance it can give over the adequacy of Council's internal control systems.

9.2 To consider the effectiveness of the internal audit function in line with the Accounts and Audit Regulations 2011.

*For Further Information Contact:*

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*Background Papers:*

Audit Plan 2012/13 (Audit Committee July 2012)

Audit Area	Status	Assurance level	Number of Recommendations			
			High	Medium	Low	VFM
Main Accounting	Completed	Reasonable	2	2	3	2
Bank Reconciliations	Completed	Reasonable	1	1	0	0
Treasury Management	Completed	Reasonable	0	0	3	0
Income	Completed	Reasonable	0	21	5	0
Accounts Receivable	Completed	Limited	2	9	5	0
Accounts Payable	Completed	Limited	5	13	4	1
Payroll	Completed	Limited	3	17	13	4
National Non Domestic Rates	Completed	Limited	4	10	1	0
Council Tax	Completed	Reasonable	2	7	4	0
Housing Benefits	Completed	Reasonable	0	3	1	0
Rent accounting	Completed	Reasonable	3	12	1	0
Write Offs/Ons	Completed	Limited	3	8	5	0
VAT	Completed	Limited	3	2	1	3
PCI - DSS	Completed	Limited	6	0	0	0
Experian (follow up)	Completed	Limited	2	4	3	0
Building Control	Completed	Limited	6	13	5	2
Safeguarding	Completed	Substantial	0	0	0	1
Insurance	Completed	Reasonable	0	0	2	2
Licensing	Completed	Reasonable	5	9	0	0
Development Control	Completed	Reasonable	3	6	3	1
Refuse	Completed	Reasonable	2	7	1	0
Asset Management	Draft					
Vehicle and Plant Maintenance	Draft					
Building Maintenance	Draft					
Business Continuity	Draft					
Procurement & Contract Audit	WIP	Recommendations made through the project team.				
Governance & Delegations	Completed	See Local Code of Good Governance Report and AGS				
Leader (i.e Grants) 3rd party audit	Completed	n/a	0	0	0	0
H&L Centres	Completed	n/a	0	0	0	0
Continuous Monitoring	Completed	n/a	n/a	n/a	n/a	n/a
Benefit Subsidy Claim Testing	Completed	n/a	n/a	n/a	n/a	n/a

**Audits not be undertaken during 2012/13**

Audit	Comment
Partnerships (10 days)	Insufficient time to undertake
Community Safety (5 days)	
Personnel/HR (10 days)	
Engineering Works (9 days)	
ICT Audit	Additional testing undertaken by E&Y - avoids some duplication of work.
Health and Safety	Agreed with the service to delay these audit reviews - see Appendix 3 for additional comments
Risk Management	

Audit Work	Comment
<b>Advice and Liaison</b>	
Audit Commission/Ernest & Young (External Audit)	Ongoing liaison throughout the year
Authorised Signatories	Ongoing - providing advice for managers
Contracts Advice	Ongoing - providing advice for managers
Waivers	Ongoing - providing advice for managers and EMT. Report issued for 11/12
<b>Projects/Policy Review</b>	
Bank Implementation	Completed
Contract Project	New Policy and procedures presented to Council on 15th April 2013 for approval. Training undertaken
Financial Regulations	In progress will be completed in 2013
Corporate Projects (inc Ringwood Gateway, Housing, Estates & Valuations, Dibden Golf Course)	Project team reviews - Time spent on Housing project team to date. Advice given on elements of Ringwood Gateway
ICT - Audit Trails	Nothing to report
New IT Systems & Agresso Development	ICT and Audit to work together on significant ICT changes to systems
<b>Fraud/ Investigation Related</b>	
Investigations	Detail with main report
Banking - Irregularities	Nothing to report to Committee as a significant concern. Related weaknesses identified in Income audit
Fraud Training	New e-form package developed with assistance from ICT.
Single Person Discount and Tenancy Fraud	Tenancy fraud work with Benefit Investigations team.
Telephone and Mobile Monitoring	Unable to effectively monitor following loss of web access. Manual process of invoice review
Incident Reporting	New e-form template drafted. ICT to assist with its implementation onto Forestnet
<b>3 Party Contracts</b>	
3rd Party Contracts	Ongoing - all Town Council work completed. Partners are happy with performance to date.
<b>Other</b>	
Contingencies	Ongoing
Non Productive Time	Includes training and corporate meetings.
Management	Ongoing

ASSURANCE FRAMEWORK

<b>Assurance</b>	<b>Internal Audit Assurance Work</b>
Internal Audit Reports	Sufficient coverage undertaken, including all fundamental systems and across all service heads. Details provided within Appendix 1 (records opinion of each audit and number of recommendations) Additional non assurance work undertaken, such as supporting Senior Management in key projects. No serious fraud investigations undertaken resulting in prosecutions. Participated in NFI. Fraud policies reviewed and updated although further training in this area is required.
Asset Management	Audit undertaken, whilst some improvements have been made within the year not all recommendations made in 2011/12 have been fully embedded. The team are undergoing a full review by the Head of Service
Financial Management	Budgeting covered within the main accounting audit. No significant issues identified. Financial Regulations being reviewed. Financial Reports provided to Members during the year. Medium Term Financial Plans in place. New Reviews agreed to find further savings.
Performance Management	There was some performance indicator testing carried out within creditors, Council Tax and Benefits audits with no significant concerns raised. Exception reporting in place for all agreed performance indicators.
Business Continuity	A separate audit was undertaken on this area. There was a desk top exercise undertaken during the year. Events during the year also tested how robust HoS contingency plans are. The profile and importance of contingency planning has improved since the governance review undertaken in 2011/12.
Health and Safety	No separate H&S audit was undertaken during the year although it was included within the audit plan. This was agreed with the HoS and the Section 151 Officer. The service was undertaking a significant amount of work to review their own processes and it was not deemed good use of internal auditor time to undertake a separate review at that time. Internal Audit did receive a report from the HSE and Zurich on H&S related arrangements. Action has been taken in year to address recommendations made. Separate testing was undertaken in some audits (i.e. Development Control) where H&S was considered as part of lone working. Officers are also required to attend mandatory H&S training events.
Corporate Governance	Heads of Service are required to provide assurance statements. Local Code review in place which included recommendations made by the Monitoring Officer and review by Performance Improvement Manager. Council minutes in place. Annual complaints report is produced. AGS approved by Section 151 Officer with findings from Internal Audit included. Mid year review undertaken on progress made on last years recommendations.
Information Governance	No separate audit undertaken. There was a potential breach reported to the Information Commissioner Office at the start of 2013. Internal Audit are conducting an independent review of the events. This area has been included within the audit plan for 2013/14
Risk Management	Policy review during the year and updates being taken to Audit Committee in June. The corporate risk register is also reviewed. Services consider risks in relation to service plans. No separate audit has been undertaken although it was included within the audit plan. Same comments as per H&S in that the timing of the review would not have been beneficial. Insurance audit was undertaken with reasonable assurance provided.
HR/Recruitment etc	Starters testing undertaken in payroll audit (annual test). Poor performance and Recruitment and Selection training programmes in place as mandatory for relevant officers. HR are reviewing the content of the Employee Handbook.



## Actual Time against the approved Annual Audit Plan 2012/13

Audit Type	Approved Audit Plan 2012/13 (A)	Actual Time spent (B)	Variance (B-A)
Main Financial Audits/ Fundamental systems	225	283	58
Other Systems Audits including follow up work	243	146	-97
Specific IT Audits	53	1	-52
Advisory Core Work	47	73	26
General Audit Liaison and Development	7	2	-5
Value for Money and Corporate Consultancy	80	79	-1
Corporate Fraud and Irregularity work	67	44	-23
Corporate Contract Work	75	78	3
<b>Sub Total for NFDC</b>	<b>797</b>	<b>706</b>	<b>-91</b>
Contingencies for NFDC	55	118	63
<b>Total NFDC time</b>	<b>852</b>	<b>824</b>	<b>-28</b>
External Work	165	181	16
Management for NFDC and Partners	100	136	36
Non Productive Time including Training	131	148	17
<b>Total Days</b>	<b>1248</b>	<b>1289</b>	<b>41</b>